# IRAQ RELIEF AND RECONSTRUCTION FUND 2: REPORT ON APPORTIONMENTS, EXPENDITURES, AND STATUS AT END OF FISCAL YEAR 2010

**SIGIR 11-013**
**APRIL 22, 2011**

# Report Documentation Page

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# SIGIR

Special Inspector General for IRAQ Reconstruction

**April 22, 2011**

## IRAQ RELIEF AND RECONSTRUCTION FUND 2: REPORT ON APPORTIONMENTS, EXPENDITURES, AND STATUS AT END OF FISCAL YEAR 2010

**Summary of Report: SIGIR 11-013**

## Why SIGIR Did This Audit

In November 2003, Public Law (P.L.) 108-106 appropriated $18.65 billion in funds, referred to as the Iraq Relief and Reconstruction Fund 2 (IRRF 2). However, the P.L. specified that $210 million of the amount was to be transferred to non-Iraq program accounts. Two later amendments directed the transfer of $10 million into the IRRF 2 account. Accordingly, $18.45 billion was provided for security, relief, rehabilitation, and reconstruction in Iraq. These funds were allocated to ten specific areas of programs and activities, referred to as sectors. The Office of Management and Budget (OMB) apportioned these funds, for the most part, to the Department of Defense (DoD)/U.S. Army, U.S. Agency for International Development (USAID), and the Department of State (DoS). The funds were initially available for obligation through September 30, 2006, but amendments to the P.L. extended the period of availability for two additional years, until September 30, 2008, with unobligated funds to remain in expired accounts for five years, until September 30, 2013. While in these expired accounts, the funds are only available to pay existing obligations or legitimate adjustments to obligations incurred during the unexpired period. On September 30, 2013, the last IRRF 2 account will be closed, and remaining funds will not be available for any purpose.

The Special Inspector General for Iraq Reconstruction (SIGIR) reports regularly on the status of the various funds used for Iraq relief and reconstruction. Our objective for this report is to address the status of IRRF 2, including the amounts apportioned to U.S. government organizations, obligated during the period of availability, adjusted while the funds were in expired accounts, and in accounts at the end of Fiscal Year (FY) 2010.

## Recommendations

This report does not contain recommendations.

## Management Comments

Because this report did not contain any recommendations, the responsible organizations were not required to, and did not, submit comments.

## What SIGIR Found

P.L. 108-106 and its amendments provided $18.45 billion for security, relief, rehabilitation, and reconstruction in Iraq. During FYs 2004 and 2005, OMB apportioned $17.86 billion of the funds from the IRRF 2 appropriation; in FY 2006, it apportioned the remaining $588 million. Most of the funds went to three organizations—DoD/U.S. Army received $13.52 billion; USAID received $3.04 billion; and DoS received $1.48 billion. Two other organizations received a total of $401 million.

The five organizations obligated more than half of the funds by the end of FY 2004, and by the end of FY 2005 they had obligated more than three-quarters of the apportioned funds. A critical point came at the end of FY 2006, when unobligated funds would expire and no longer be available for new obligations. At that point, all but $389 million had been obligated—about 2% of appropriated funds.

In June 2006, three months before IRRF 2 unobligated balances would have expired, P.L 109-234 authorized the funds to remain available for one additional year. In May 2007, P.L. 110-28 amended the extension, adding another year. These amendments extended the period of availability for new IRRF 2 obligations through September 2008, with some funds remaining available for expenditure until September 30, 2013. To recognize these extended periods, OMB and the U.S. Treasury established separate Treasury accounts. During FY 2007, DoD/U.S. Army, USAID, and DoS returned $454.56 million of previously apportioned funds to OMB. OMB transferred the funds to a new account and apportioned $218.59 million back to the organizations in FY 2007—waiting until FY 2008 to apportion some available funds. During FY 2008, the organizations returned $243.40 million. OMB transferred the funds to a new account and apportioned $412.43 million.

As of the end of FY 2010, $17.26 billion had been expended from the IRRF 2 accounts, and unliquidated obligations totaled about $145.25 million. The amount of the organizations' unobligated funds totaled $402.46 million, and OMB's unobligated funds totaled about $26.33 million—meaning that about $429 million could be canceled at the end of the next three fiscal years (FYs 2011-2013). This is the amount that could be returned to the Treasury's General Fund if all obligations are paid and upward and downward adjustments to unliquidated obligations net to zero.

For more information, contact SIGIR Public Affairs at (703) 428-1100 or PublicAffairs@sigir.mil

**SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

April 22, 2011

MEMORANDUM FOR THE U.S. SECRETARY OF STATE
U.S. SECRETARY OF DEFENSE
U.S. SECRETARY OF THE TREASURY
ADMINISTRATOR OF U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: Iraq Relief and Reconstruction Fund 2: Report on Apportionments, Expenditures, and Status at End of Fiscal Year 2010 (SIGIR 11-013)

We are providing this audit report for your information and use. The report discusses the status of funds provided under Public Law 108-106, referred to as Iraq Relief and Reconstruction Fund 2. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq, and for recommendations on related policies designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse. This audit was conducted as Project 1014b. This report does not contain recommendations; accordingly, the addressees were not required to provide comments and elected not to do so.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn D. Furbish, Assistant Inspector General for Audits (Washington, DC), (703) 604-1388/ glenn.furbish@sigir.mil or Jason Venner, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 607-1346/ jason.venner@sigir.mil.

Stuart W. Bowen, Jr.
Inspector General

cc: U.S. Ambassador to Iraq
U.S. Under Secretary of Defense (Comptroller)
Commander, U.S. Central Command
Commanding General, U.S. Forces–Iraq
Commanding General, U.S. Army Corps of Engineers
Mission Director, U.S. Agency for International Development

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**Iraq Relief and Reconstruction Fund 2: Report on Apportionments, Expenditures, and Status at End of Fiscal Year 2010**

**SIGIR 11-013** **April 22, 2011**

# Introduction

Public Law (P.L.) 108-106, as amended, requires that the Special Inspector General for Iraq Reconstruction (SIGIR) report on the oversight and accounting of the obligation and expenditure of funds for Iraq relief and reconstruction efforts. As a part of this effort, SIGIR has reported on the status of appropriated funds, such as the Iraq Relief and Reconstruction Fund (IRRF) 1[1], and other funds that have been used, such as the Development Fund for Iraq and the Seized and Vested Assets Fund.[2]

This report addresses the status of the second IRRF, which was enacted in November 2003, about six months after IRRF 1. The second fund (referred to as IRRF 2) was enacted under P.L. 108-106 that appropriated to the President $18.65 billion for security, relief, rehabilitation, and reconstruction in Iraq. Although $18.65 billion was appropriated, only $18.44 billion was for Iraq programs—the P.L. specified and the Office of Management and Budget (OMB) transferred $210 million to 3 "non-Iraq" program accounts—2 at the U.S. Agency for International Development (USAID) and the other at the Department of State (DoS).[3] In Fiscal Year (FY) 2006, $10 million was added to IRRF 2 by P.L. 109-102 and P.L. 109-234, which directed the transfer of funds from the Economic Support Fund. Accordingly, this report addresses the $18.45 billion of IRRF 2 available for Iraq programs.

## Background

P.L. 108-106 specified the amount of funds for Iraq programs to be allocated to ten specific areas of programs and activities, referred to as sectors. The largest allocation was to the electric sector for $5.56 billion, followed by the water resources and sanitation sector with an allocation of $4.33 billion, and the security and law enforcement sector with an allocation of $3.24 billion. Seven other sectors were allocated funds. While funds were allocated to specific sectors, P.L. 108-106 also stated that the President could reallocate these funds within certain bounds as long as the House and Senate Committees on Appropriations were notified of the changes. Numerous changes were made to the allocations over the next five years, including changes made by amendments to the P.L., and these changes were reported quarterly in accordance with Section

[1] *Iraq Relief and Reconstruction Fund 1: Report on Apportionments, Expenditures, and Canceled Funds,* SIGIR-11-007, 1/25/2011.

[2] *Development Fund for Iraq: Department of Defense Needs To Improve Financial and Management Controls,* SIGIR 10-020, 7/7/2010, and *Guidance Needed for Use of Residual Iraqi Vested and Seized Asset Funds,* SIGIR 11-002, 10/15/2010.

[3] In January 2004, OMB transferred $110 million to USAID for International Disaster and Famine Assistance—$100 million for Liberia and $10 million for Sudan—and transferred $100 million to DoS for Economic Support Fund assistance to Jordan.

2207 of P.L. 108-106. The reports that were required are referred to as Section 2207 Reports to Congress and were provided from January 2004 until October 2008. Appendix B provides additional details on these sector allocations and changes that occurred as the funds were used.

### *Organizations Receiving IRRF 2*

P.L. 108-106 specified that funds were to be apportioned to only the Coalition Provisional Authority in Iraq (in its capacity as an entity of the United States Government), the Department of Defense (DoD), USAID, DoS, the Department of the Treasury (Treasury), and the Department of Health and Human Services.

- The Coalition Provisional Authority was established as a transitional government following the invasion of Iraq. It was created and funded as a division of DoD and, from May 2003 through June 2004, was responsible for overseeing, directing, and coordinating the relief and reconstruction effort in Iraq. On June 28, 2004, when power transferred to the sovereign Iraqi Interim Government, the Coalition Provisional Authority was officially dissolved. OMB did not directly apportion funds to the Coalition Provisional Authority.
- DoD's mission is to provide the military forces needed to deter war and to protect the security of our country. It created organizations to manage and support Iraq relief and reconstruction programs and activities. The Deputy Secretary of Defense designated the U.S. Army as the Executive Agent for the Iraq effort, providing administrative, logistics, and contracting support. Based on this designation, OMB apportioned all of IRRF 2 for DoD directly to the U.S. Army.
- USAID, an independent federal government agency that receives overall foreign policy guidance from the Secretary of State, extends assistance to countries recovering from disaster, trying to escape poverty, and engaging in democratic reforms. USAID implemented Iraq programs in four strategic areas: restoring essential infrastructure, supporting essential health and education, expanding economic opportunity, and improving efficiency and accountability of government. To execute its mission in Iraq, the USAID Mission office was established in Iraq.
- DoS' mission is to create a more secure, democratic, and prosperous world for the American people and the international community. The Secretary of State, DoS' chief executive officer, answers directly to the President. The Ambassador to Iraq, on behalf of the President and under the guidance of the Secretary of State, is responsible for the direction, coordination, and supervision of all U.S. government employees, policies, and activities in Iraq, except those under the command of a U.S. military commander and employees seconded to international organizations. Five DoS bureaus provided support to the U.S. Mission–Iraq and were involved in IRRF 2 programs.
- Treasury's responsibilities include advising the President on economic and financial issues, encouraging sustainable economic growth, and fostering improved governance in financial institutions. Its Office of Technical Assistance provided advisory services to the Government of Iraq that focused on establishing central bank functions and a nationwide payment system among local banks and the central bank. The Office awarded contracts and conducted activities in Iraq under six major functions: budget policy and

management; finance enforcement; banking and financial services; government debt issuance and management; tax policy and administration; and operations.

- The Department of Health and Human Services, although identified in the P.L. as a possible recipient of IRRF 2, was not apportioned monies by OMB.

In addition, P.L. 108-106 specified that $10 million was to be made available to the U.S. Institute of Peace for activities supporting peace enforcement, peacekeeping, and post-conflict peacebuilding. The Institute is an independent and federally-funded institution established by Congress. Its goals are to help prevent and resolve violent international conflicts, promote post-conflict stability and democratic transformations, and increase peacebuilding capacity, tools, and intellectual capital worldwide. It provides on-the-ground operational support in zones of conflict, such as Iraq.

Following an appropriation act, the Office of Management and Budget (OMB), in accordance with its Circular A-11[4], approves apportionments that establish the amount of obligations that can be incurred for a specific time period or activity. OMB apportions funds using Treasury Appropriation Fund Symbols (TAFS) that designate the organization, the period of availability to incur new obligations, and the Treasury account symbol. For the IRRF accounts, the symbol was 11-1096, and the initial period of availability for new obligations for IRRF 2 was through the end of FY 2006. Hence, the first TAFS for IRRF 2 was 11-1096-04/06. A portion of IRRF 2 was transferred from the 11-1096 account to other TAFS.

After receiving an apportionment, U.S. government organizations continue with the process of spending funds by incurring obligations, which are the dollar amounts of orders placed, contracts awarded, or services received that require future payment. An obligation is recorded when an authorized agent enters into a legally binding agreement to purchase specific goods or services. The recorded obligation is reduced by the amount of payments—expenditures—made on bills received, and unpaid obligations are referred to as unliquidated obligations. When all goods and services have been received and paid for, the obligation is considered liquidated, and any remaining balance should be deobligated to make the funds available for other uses. If some of the apportioned funds are not obligated at the end of the account's period of availability, the budget authority for these funds expires, and the funds remain available for five additional fiscal years to adjust obligations chargeable within the scope of the original contract. At the end of the fifth fiscal year, the account is considered closed, and any remaining funds are canceled.

# Objective

Our objective for this report is to address the status of IRRF 2 including amounts apportioned to U.S. government organizations, obligated during the periods of availability, adjusted while the funds were in expired accounts, and in accounts at the end of FY 2010.

For a discussion of the audit scope and methodology, see Appendix A. For IRRF 2 allocations and expenditures by sector, see Appendix B. For a list of acronyms, see Appendix C. For the

[4] This Circular, in part, provides instruction on budget execution including apportionments and budget execution reports.

audit team members, see Appendix D. For the SIGIR mission and contact information, see Appendix E.

# IRRF 2 Apportioned, Obligated, and Expended

During FYs 2004 and 2005, OMB apportioned $17.86 billion from the IRRF 2 appropriation—almost 97% of the $18.45 billion available. In FY 2006, OMB apportioned the remaining $588 million. Most of the funds went to three organizations—the DoD/U.S. Army received $13.52 billion; USAID received $3.04 billion; and DoS received $1.48 billion. Treasury and USIP also received funds.

The organizations obligated more than half of the funds apportioned by OMB during FY 2004, and by the end of FY 2005, they had obligated more than three-quarters of the apportioned funds. By the end of FY 2006, when unobligated funds would expire and no longer be available for new obligations, all but $389 million—about 2% of apportioned funds—had been obligated with DoD/U.S. Army accounting for almost all of these expired funds. The October 2006 Section 2207 Report to Congress noted that the funds were intentionally left to expire.

Two amendments to P.L. 108-106 extended the IRRF 2 availability period beyond FY 2006, and OMB and the organizations used this extended period to deobligate and reobligate funds. As a result, the IRRF 2 period of availability for obligations was extended through September 2008, allowing some funds to remain available for expenditure until September 30, 2013. To recognize these extended periods, OMB and Treasury established separate Treasury accounts. During FY 2007, $454.56 million of previously apportioned funds were returned to OMB. OMB transferred the funds to a new account and apportioned $218.59 million to the organizations. In FY 2008, $243.40 million was returned, and $412.43 million was apportioned. Also, in June 2008, $50 million was rescinded and transferred out of IRRF 2.

As of the end of FY 2010, $17.26 billion had been expended from the three IRRF 2 accounts, with unliquidated obligations totaling $145.25 million. The organizations' unobligated funds totaled about $402.46 million, and OMB's unobligated funds totaled about $26.33 million—resulting in about $429 million that could be canceled at the end of the next three fiscal years (FYs 2011-2013). This is the amount that could be returned to the Treasury's General Fund if all obligations are paid and upward adjustments and downward adjustments to unliquidated obligations net to zero. If a net upward adjustment is needed, then the amount to be canceled will be less. If a net downward adjustment results as the obligations are liquidated or if unliquidated obligations remain at the end, then a larger amount of funds will be canceled.

## OMB Apportioned All IRRF 2

In December 2003, one month after P.L. 108-106 was enacted, OMB began apportioning IRRF 2 funds. Over the first three months, OMB apportioned $7.96 billion, approximately 43% of available funds, and almost all to DoD, USAID, and DoS. By the end of FY 2004, OMB had apportioned $13.75 billion (75%), and by the end of FY 2005, $17.86 billion (97%) had been apportioned. The remaining $588 million was apportioned in FY 2006. Table 1 shows OMB apportionments to each organization for these three FYs.

## Table 1—OMB Apportionments of IRRF 2 in FYs 2004, 2005, and 2006 ($ in millions)

| | Amounts Apportioned | | | |
|---|---|---|---|---|
| **Organization** | **FY 2004** | **FY 2005** | **FY 2006** | **Total** |
| DoD/U.S. Army | $10,201.36 | $2,866.54 | $453.16 | $13,521.06 |
| USAID | 2,361.23 | 666.05 | 16.29 | 3,043.57 |
| DoS | 1,132.44 | 231.90 | 118.97 | 1,483.31 |
| U.S. Treasury | 40.00 | 351.38 | 0 | 391.38 |
| U.S. Institute of Peace | 10.00 | 0 | 0 | 10.00 |
| **Total** | **$13,745.03** | **$4,115.87** | **$588.43** | **$18,449.32[a]** |

**Notes:**

Numbers are affected by rounding.

[a]The SF 133s show that $372,000 more than the $18,448,950,000 available was apportioned. This difference had no significant affect on the account.

*Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources and other OMB and Treasury data.*

OMB apportioned all of the $18,449 million available for Iraq programs, with $17,887 million to the organizations'11-1096-04/06 accounts and $562 million to other accounts, including a net of $352.28 million to Treasury's Debt Restructuring account, $184 million to DoS' Diplomatic and Consular Program account, and $25.90 million to USAID's Development Assistance account.

- Treasury's Debt Restructuring: OMB transferred funds to this account as a result of an agreement between the United States and other countries to provide debt reduction relief to the new Iraqi government of the country's debt burden inherited from Saddam Hussein. As part of this commitment, and as provided for in P.L. 108-309, in December 2004, OMB transferred $360 million from its IRRF 2 (11-1096-04/06) account to the Treasury's Debt Restructuring account (11-0091-04/06) established expressly for Iraq debt relief. About six weeks later, $7.72 million of unused funds were returned to OMB.
- DoS' Diplomatic and Consular Program: OMB transferred $184 million to this account to meet the expenses included in DoS' FYs 2005-2006 Iraq spending plan. P.L. 108-106 provided that up to 1% of IRRF 2 could be used for the operating expenses of the Coalition Provisional Authority. After the Authority was officially dissolved in June 2004, the funds provided for its operating expenses were transferred to DoS' Diplomatic and Consular Program.
- USAID's Development Assistance: OMB transferred funds to this account in July 2004 to comply with USAID's agreement with the Overseas Private Insurance Corporation to provide about $25 million to establish a facility that would lend funds to credit-worthy middle-market Iraqi businesses. To make the transfer, USAID returned $25 million from its IRRF 2 (11-1096-04/06) account to OMB, which transferred the funds to USAID's Development Assistance account (72-1021-04/06) for further transfer to the Corporation. In December 2004, an additional $900,000 of IRRF 2 was transferred to the Corporation via USAID's Development Assistance account.

## Organizations Obligated Most Funds with Few Expiring

In FY 2004, more than half of the funds apportioned by OMB were obligated during that year. By the end of FY 2005, the organizations had obligated more than three-quarters of apportioned funds. However, the critical point was at the end of FY 2006 when unobligated funds would expire and no longer be available for new obligations. As shown in Table 2, all but about 2% of the apportioned funds had been obligated by each organization by the end FY 2006. Only the DoD/U.S. Army had significant expired funds.

### Table 2—IRRF 2 Apportionments, Obligations, and Expired Funds at the End of FY 2006 ($ in millions)

| | Amounts Apportioned and Obligated by End of FY 2006 | | | |
|---|---|---|---|---|
| **Organization** | **Apportioned** | **Obligated** | **Expired** | **Percent Obligated** |
| DoD/U.S. Army | $13,521.06 | $13,135.83 | $385.23 | 97.2 |
| USAID | 3,043.57 | 3,042.18[a] | 1.39 | 99.9 |
| DoS | 1,483.31 | 1,480.90[b] | 2.41 | 99.8 |
| U.S. Treasury | 391.38 | 391.38[c] | 0 | 100.0 |
| U.S. Institute of Peace | 10.00 | 9.90 | 0.10 | 99.0 |
| **Total** | **$18,449.32** | **$18,060.19** | **$389.13** | **97.9%** |

**Notes:**

Numbers are affected by rounding.

[a] Obligated amount includes the $25.90 million transferred to USAID's Development Assistance account.

[b] Obligated amount includes the $184.00 million transferred to DoS' Diplomatic and Consular Program account.

[c] Obligated amount includes the $352.28 million transferred to Treasury's Debt Restructuring account.

*Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resource and other OMB and Treasury data.*

In its October 2006 Section 2207 Report to Congress, DoS reported that about $385 million[5] in the account was intentionally left to expire but that these funds would be used for upward-scope adjustments and limited in-scope changes to complete existing contracts. The report also noted that a thorough review of obligation data had been made as of the September 30, 2006, close-out date.

## IRRF 2 Availability Periods Extended and Funds Deobligated and Reobligated

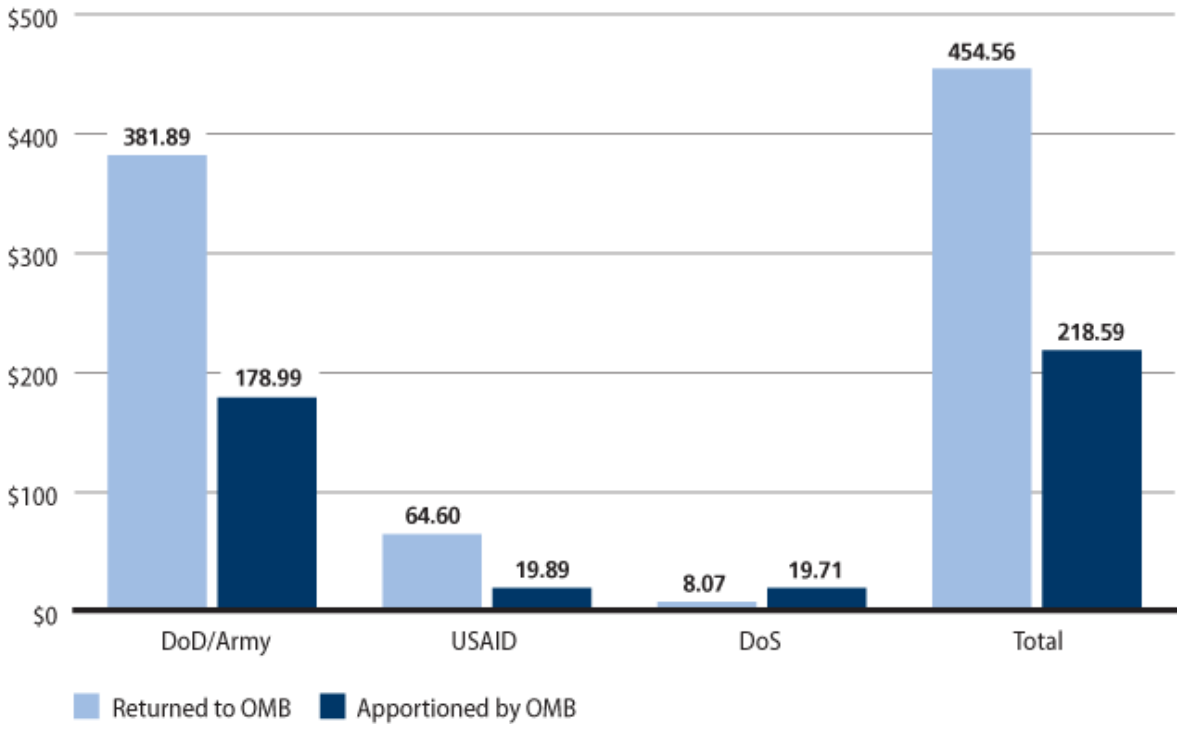
In June 2006, three months before IRRF 2 unobligated balances would have expired, P.L 109-234, Section 1302(a), authorized that IRRF 2 "shall remain available for one additional year from the date on which the availability of funds would otherwise have expired…" Accordingly, this extended IRRF 2's period of availability and allowed OMB to use funds for new obligations

[5] A difference of about $4 million exists between this Section 2207 Report amount of expired funds and the amount shown on the SF 133s; however, we did not attempt to reconcile this difference because it has no significant effect on the account.

through September 2007. To recognize the extended period of availability, OMB and Treasury established a separate TAFS for the extension provided by the amendment—the new TAFS was 11-1096-04/07.

In FY 2007, the organizations began to deobligate funds in the 11-1096-04/06 account and return them to OMB. OMB then "transferred" these funds to the 11-1096-04/07 account, allowing the funds to be used for new obligations during FY 2007. OMB apportioned these funds to the organizations with DOD/Army returning and receiving the most funds. Figure 1 shows the amount of 11-1096-04/06 funds each organization deobligated and returned to OMB, and the amount of funds that OMB apportioned to each organizations' 1096-04/07 account in FY 2007.

### Figure 1—Account 11-1096-04/06 Funds Returned to OMB and Apportioned to Organizations in FY 2007 ($ in millions)



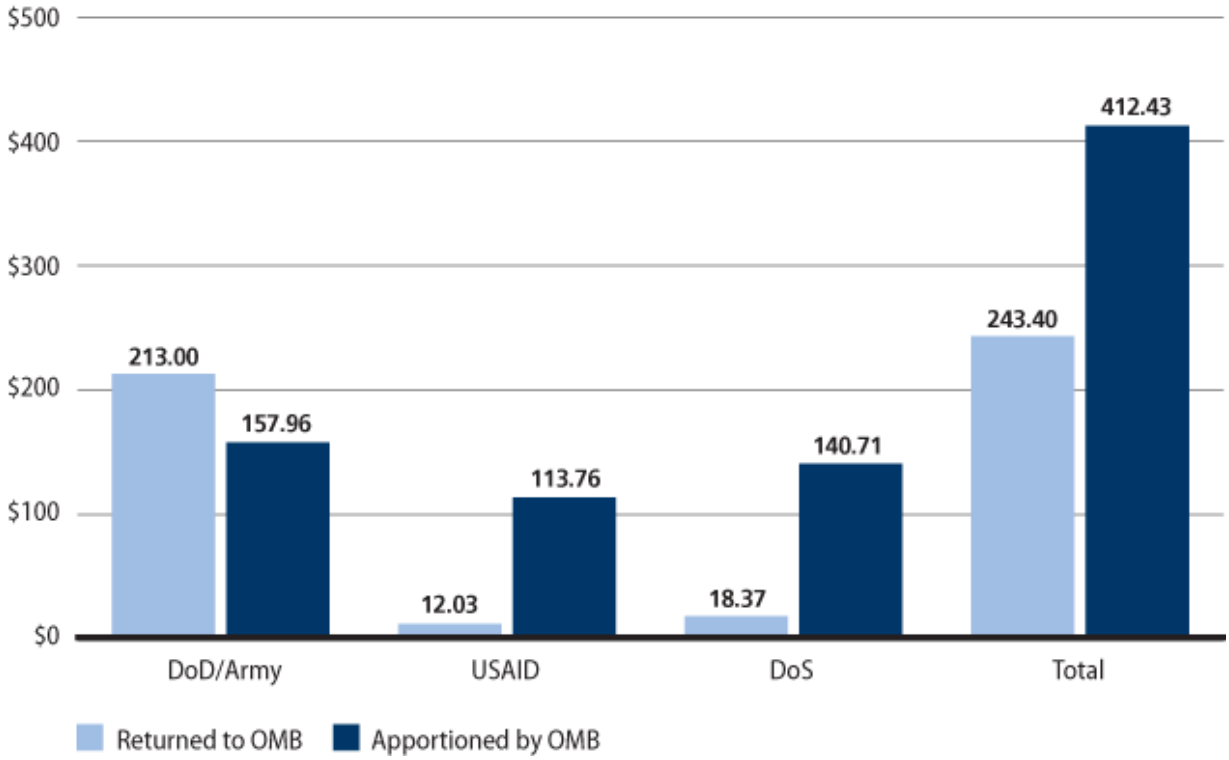

*Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources and other OMB and Treasury data.*

In May 2007, P.L. 110-28, Section 3811, amended the first extension by striking "one additional year" and inserting "two additional years." This amendment extended the period of availability for IRRF 2 obligations through September 2008 allowing some funds to remain available for expenditure until September 30, 2013. To recognize this second extended period of availability for IRRF 2, OMB and Treasury established another separate TAFS—11-1096-04/08.

As previously discussed, the organizations deobligated funds (from obligations incurred with funds in the 11-1096-04/06 and 11-1096-04/07 accounts) and returned them to OMB where they were transferred to the new 11-1096-04/08 account. These deobligated funds were then apportioned to the organizations where the funds could be used for new obligations during FY

2008. Again, DoD/U.S. Army returned and received the most funds. Figure 2 shows the amount of funds each organization deobligated and returned to OMB and the amount of funds that OMB apportioned to the organizations in FY 2008. As seen in Figures 1 and 2, OMB did not apportion in FY 2007 all funds returned that year but waited until FY 2008 to apportion available funds.

### Figure 2—Funds Returned to OMB and Apportioned to Organizations in FY 2008 ($ in millions)




*Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources and other OMB and Treasury data.*

In June 2008, P.L. 110-252 rescinded $50 million of the amount that had been provided for IRRF 2. OMB had this amount available from funds deobligated and returned by the organizations, and it processed the transfer from the 11-1096-04/08 account in August 2008.

## Status of IRRF 2 at End of Fiscal Year 2010

As previously noted, IRRF 2 in account 11-1096-04/06 was initially available for obligations through September 30, 2006, at which time any unobligated balances would have expired and remained available only to cover legitimate obligation adjustments for the next five years, through September 30, 2011. At that time, the account will be closed and any remaining funds will be canceled—no longer available for obligation or expenditure for any purpose. Any outstanding obligations at that time will have to be paid from a current appropriation established for the same general purpose. However, for the new account created to recognize the first extension of availability (11-1096-04/07), the funds were available for new obligations until September 30, 2007, and will remain as expired funds until September 30, 2012, when the

account will close. For the account created for the second extension (11-1096-04/08), the funds were available for new obligations until September 30, 2008, and remain as expired funds until September 30, 2013. By putting funds in these different accounts, the periods of availability and the dates when the funds will be canceled are different.

Tables 3, 4, and 5 show OMB apportionments to the organizations for the three accounts established for IRRF 2, and the status of each organization's account at the end of FY 2010. Table 3 shows the unobligated balance for the 11-1096-04/06 account at the end of FY 2010 was $351.99 million. In addition to the unobligated balance in the organizations' accounts, OMB had an unobligated balance in its 11-1096-04/06 account resulting from DoS returning $2.29 million to the account in FY 2010. Adding this amount to the balance shown in Table 3 results in a total unobligated balance of $354.28 million. This amount could be canceled at the end of FY 2011 if all obligations are paid and if upward and downward adjustments to unliquidated obligations net to zero. If a net upward adjustment is needed, then the amount to be canceled will be less. If a net downward adjustment results as the obligations are liquidated, or if unliquidated obligations remain at the end of FY 2011, then a larger amount of funds will be canceled.

### Table 3—Account 11-1096-04/06: Status of Funds at End of FY 2010 by Organization ($ in millions)

| Organization | Apportioned | Expended | Unliquidated Obligations | Unobligated Balance |
|---|---|---|---|---|
| DoD/U.S. Army | $12,926.17 | $12,560.71 | $89.65 | $275.81 |
| USAID | 2,941.05 | 2,901.25 | 11.24 | 28.56 |
| DoS | 1,270.59 | 1,204.65 | 18.54 | 47.40 |
| U.S. Treasury | 39.10 | 38.33 | 0.73 | 0.04 |
| U.S. Institute of Peace | 10.00 | 9.76 | 0.06 | 0.18 |
| **Total** | **$17,186.91** | **$16,714.70** | **$120.22** | **$351.99** |

**Note:**
Numbers are affected by rounding.

*Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources.*

Table 4 shows that the organizations have about $3.25 million in unobligated funds in the 11-1096-04/07 account that could be canceled at the end of FY 2012. OMB's reporting shows no unobligated funds in this account. Again, the final amount to be canceled could change, depending on adjustments to unliquidated obligations and whether all obligations are liquidated before the end of FY 2012.

### Table 4—Account 11-1096-04/07: Status of Funds at End of FY 2010 by Organization ($ in millions)

| Organization | Apportioned | Expended | Unliquidated Obligations | Unobligated Balance |
|---|---|---|---|---|
| DoD/U.S. Army | $173.67 | $166.39 | $4.13 | $3.15 |
| USAID | 19.90 | 19.90 | 0 | 0 |
| DoS | 19.71 | 19.63 | (0.02)[a] | 0.10[a] |
| **Total** | **$213.28** | **$205.92** | **$4.11** | **$3.25** |

**Notes:**

Numbers are affected by rounding.

[a] A DoS finance official stated that in FY 2009 an entry incorrectly reduced the unliquidated obligation amount instead of the unobligated balance. The corrected amounts at the end of FY 2010 are unliquidated obligations of about $61,000 and unobligated balance of about $23,000.

*Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources.*

As shown in Table 5, the organizations' unobligated balance in the 11-1096-04/08 account at the end of FY 2010 was $47.22 million. In addition, OMB has an unobligated balance in the account of $24.04 million at the end of FY 2010—DoS returned $23.99 million to OMB's 11-1096-04/08 account in FY 2009, and OMB did not apportion $56,000 to the organizations. Adding this $24.04 million to the $47.22 million shown in Table 5 results in an unobligated balance of $71.26 million that could be canceled at the end of FY 2013 if all obligations are paid and upward adjustments and downward adjustments to unliquidated obligations net to zero. If a net upward adjustment is needed, then the amount to be canceled will be less. If a net downward adjustment results as the obligations are liquidated or if unliquidated obligations remain at the end of FY 2013, then a larger amount of funds will be canceled.

### Table 5—Account 11-1096-04/08: Status of Funds at End of FY 2010 by Organization ($ in millions)

| Organization | Apportioned | Expended | Unliquidated Obligations | Unobligated Balance |
|---|---|---|---|---|
| DoD/U.S. Army | $177.96 | $141.45 | $4.46 | $32.04 |
| USAID | 115.96 | 119.24[a] | (3.62)[a] | 0.34 |
| DoS | 116.72 | 81.80 | 20.08 | 14.84 |
| **Total** | **$410.64** | **$342.49** | **$20.92** | **$47.22** |

**Notes:**

Numbers are affected by rounding.

[a] USAID officials stated that $3.62 million of grant payments were incorrectly charged against this account in FY 2009. For the 11-1096-04/08 account at the end of FY 2010, this error resulted in expended funds exceeding apportioned funds and a negative unliquidated obligation balance. In the first quarter of FY 2011, USAID corrected the error by moving the disbursements to the appropriate account.

*Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources.*

Table 6 summarizes the status of the three accounts as of the end of FY 2010 and shows that about $429 million was unobligated at that time. This includes the organizations' unobligated balance of about $402.46 million and OMB's unobligated balance in its 11-1096-04/06 and 11-1096-04/08 accounts totaling about $26.33 million. This is the total amount of funds that could

be canceled at the end of the next three fiscal years and returned to the Treasury's General Fund. Again, the amount to be canceled could change, depending on adjustments to unliquidated obligations and whether all obligations are liquidated before the end of the respective FYs.

### Table 6—Summary of IRRF 2 Expended, Unliquidated Obligations, and Unobligated Balance at the End of FY 2010 ($ in millions)

| | Organizations | | | | |
|---|---|---|---|---|---|
| Account | Expended | Unliquidated Obligations | Unobligated Balance | OMB Unobligated Balance | Total Unobligated Balance |
| 11-1096-04/06 | $16,714.70 | $120.22 | $351.99 | $2.29 | $354.28 |
| 11-1096-04/07 | 205.92 | 4.11 | 3.25 | 0 | 3.25 |
| 11-1096-04/08 | 342.49 | 20.92 | 47.22 | 24.04 | 71.26 |
| **Total** | **$17,263.11** | **$145.25** | **$402.46** | **$26.33** | **$428.79** |

**Note:**
Numbers are affected by rounding.

*Source: SIGIR analysis of data from Standard Form 133s, Reports on Budget Execution and Budgetary Resources.*

# Concluding Observation

OMB quickly apportioned IRRF 2, and the organizations receiving these funds also acted quickly to obligate the funds. However, the extension of the availability of funds, first for one year and then for an additional year, complicated the allocation, obligation, deobligation, reallocation, and reobligation processes. Despite this added complexity, we believe that OMB's and Treasury's established procedures for allocating and reporting on funds proceeded without significant issues. Also, as IRRF 2 moved from available for obligation to expired funds, no significant issues were identified. While we noted minor errors in the reporting on the IRRF 2 allocations, obligations, and expenditures, the closing of the IRRF 2 accounts—with the first one being closed at the end of FY 2011—should not encounter significant issues, and about $429 million could be returned to the Treasury's General Fund.

# Appendix A—Scope and Methodology

In May 2010, the Special Inspector General for Iraq Reconstruction (SIGIR) announced Project 1014 with an objective to determine the extent to which funds appropriated for the Iraq Relief and Reconstruction Fund (IRRF) have been obligated and liquidated. This report focuses on the second IRRF appropriation, known as IRRF 2, and is designated as Project 1014b. Our objective for this report is to address the status of IRRF 2 including amounts apportioned to U.S. government organizations, obligated during the periods of availability, adjusted while the funds were in expired accounts, and in accounts at the end of FY 2010. This audit was performed by SIGIR under the authority of Public Law (P.L.) 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work from July 2010 through March 2011, primarily in the Washington D.C. metropolitan area.

To accomplish our objectives we held discussions with and/or analyzed documents provided by officials from the following organizations: Department of State; U.S. Department of the Treasury (Treasury); U.S. Agency for International Development; Defense Finance and Accounting Service; and U.S. Institute of Peace. The Office of Management and Budget (OMB) responded to written questions on IRRF.

Key documents used in our audit were the Standard Form 133s, Reports on Budget Execution and Budgetary Resources and the Governmentwide Accounting System's Nonexpenditure Transfer Authorizations by which the Treasury adjusted the amounts of IRRF 2 that were apportioned to the organizations. The SF 133s provide data on the organizations' budgetary resources, the amounts obligated, changes in obligation balances, and the amounts of expenditures. Data for SF 133s are submitted electronically each quarter by all Executive Branch agencies on the status of each appropriation account. The fourth quarter (fiscal year end) submission of SF 133 data are certified by each organization's Chief Financial Officer in that obligation balances in each account reflect proper existing obligations and that expenditures from each account are proper. We also utilized data from the Combined Statement of Receipts, Outlays, and Balances of the United States Government for FYs 2004-2010. Our audit did not include a review of documents supporting obligations and expenditures of funds by the organizations.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## Use of Computer-processed Data

In performing this audit, SIGIR obtained computer generated reports and data from a number of different systems including the Treasury's Governmentwide Accounting System. In addition to the Treasury's system, each of the organizations involved in our audit had their own accounting system(s) that generated data on obligations and expenditures. Accordingly, we did not

independently verify the detailed computer-generated information, but because these are basic accounting systems of the U.S. government and the involved organizations, we concluded that the computer-processed information was sufficiently reliable and the best available for purposes of our audit.

## Internal Controls

In conducting this audit, we reviewed internal management and financial controls for administering and reporting on IRRF 2. As a key part of these controls, we reviewed Treasury's Financial Manual addressing the requirement to establish accounts and the OMB Circular A-11 requirements for preparing the SF 133s. We concluded that controls governing the process for regular and routine reporting on apportioned funds, obligations, and expenditures were sufficiently reliable to provide a sound basis for overall reporting on the status of IRRF 2. We presented the results of our review on internal controls in the body of this report as appropriate.

## Prior Coverage

We reviewed the following audit reports by SIGIR.

*Changes in Iraq Relief and Reconstruction Fund Program Activities January through March 2006,* SIGIR 06-023, 7/28/2006.

*Changes in Iraq Relief and Reconstruction Fund Program Activities October through December 2005,* SIGIR 06-004, 4/28/2006.

*Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities,* SIGIR 05-029, 1/26/2006.

*Coalition Provisional Authority Control of Appropriated Funds*, Coalition Provisional Authority Inspector General 05-001, 10/22/2004. (The Coalition Provisional Authority Inspector General was the predecessor organization of SIGIR.)

# Appendix B—IRRF 2 Allocations and Expenditures by Sector

P.L. 108-106 specified the amount of funds for Iraq to be allocated to specific areas of programs and activities, referred to as sectors. While funds were allocated to specific sectors, P.L. 108-106 also stated that the President could reallocate these funds within certain bounds as long as the House and Senate Committees on Appropriations were notified of the changes. Numerous changes were made to the allocations, including changes made by amendments to the P.L., and these changes were reported quarterly as required by Section 2207 of P.L. 108-106. These required reports, referred to as Section 2207 Reports to Congress, were provided from January 2004 until October 2008.

Table 7 lists the ten sectors and shows changes between the original November 2003 allocations and the final allocations at September 2008. The P.L. also specified that not less than $35 million of the amounts allocated to these sectors was to be made available for organizations' administrative expenses. Accordingly, the Administrative expenses sector is included in the final allocations; however, administrative expenses beyond this allocation were incurred and were spread across the various sectors. Finally, the September 2008 total allocation is $10 million more than the original total because $10 million was transferred into IRRF 2 from the Economic Support Fund.

### Table 7—IRRF 2 Sector Allocation Changes from November 2003 to September 2008 ($ in millions)

| Sector | Allocation November 2003 | Allocation September 2008 | Difference |
|---|---|---|---|
| Electric | $5,560 | $4,202 | $(1,358) |
| Water resources and sanitation | 4,332 | 2,051 | (2,281) |
| Security and law enforcement | 3,243 | 4,962 | 1,719 |
| Oil infrastructure | 1,890 | 1,728 | (162) |
| Justice, public safety infrastructure, and civil society | 1,318 | 2,300 | 982 |
| Health care facilities | 793 | 812 | 19 |
| Transportation and telecommunications | 500 | 462 | (38) |
| Roads, bridges, and construction | 370 | 305 | (65) |
| Education, refugees, human rights, and governance | 280 | 539 | 259 |
| Private sector development | 153 | 868 | 715 |
| Administrative expenses | 0 | 220 | 220 |
| **Total** | **$18,439** | **$18,449** | **$10** |

**Note:**
Numbers are affected by rounding.

*Source: P.L. 108-106 and Section 2207 Report to Congress, October 2008.*

As shown in Table 7, the amount of funds allocated to the sectors changed significantly in the years after the P.L. was enacted. Both the Section 2207 Reports to Congress required by the P.L., and SIGIR's Audit Reports and Quarterly Reports to the Congress have reported on the changing allocations. The following data on the allocations are taken from these reports. The data has not been audited as part of this audit.

In January 2006, SIGIR reported on the significant changes that had occurred in the sector allocations from the initial allocations in November 2003 and the allocations as of October 2005.[6] The report, which contains descriptions of the sectors and major projects in each sector, discussed the major causes of funding shifts. It noted that strategy changes had resulted in the reallocation of $5.6 billion from their originally planned purposes; unbudgeted administrative costs of the implementing organizations had resulted in $401 million in project changes; and unbudgeted sustainment costs had resulted in about $425 million in project changes, with another $350 million budgeted for additional sustainment activities. Other factors, such as unforeseen security costs and unexpected conditions at many planned job sites, affected the projects. As a result of these changes, the Security and law enforcement and the Justice, public safety infrastructure, and civil society sectors received large increases of funds.

As shown in Table 7, the Water resources and sanitation sector and the Electric sector incurred the largest reduction of funds. Because broad sector goals were established that did not link to individual projects, identifying the specific effects of funding reductions on the sectors' original plans was not possible. Moreover, detailed and accurate data on the status of some sectors was lacking before the start of reconstruction activity. For the two sectors with the largest changes, Water and Electric, SIGIR identified the following changes as of October 2005:

- Water resources and sanitation: About 60% of the originally planned Water Resources and sanitation sector projects were not implemented. Potable water projects and water pumping stations and generators retained the largest number of projects, while the sewerage sub-sector; the irrigation and drainage sub-sector; the major irrigation sub-sector; and the dams sub-sector had most of their projects terminated.
- Electric: The Coalition Provisional Authority originally planned for about 425 projects in the Electric sector and will complete approximately 300. The largest change will occur in the power generation sub-sector, which will add only about 2,109 megawatts of additional power rather than the originally planned 3,400 megawatts.

While the major changes in sector allocations took place before the end of 2005, changes continued until September 30, 2008, when the final IRRF 2 sector allocations were completed. At that time, the funds were expired and could not be used for new obligations. The funds could only be used to pay existing obligations or legitimate adjustments to obligations incurred prior to September 30, 2008.

Table 8 compares the final September 2008 sector allocations with obligations as of September 30, 2010, as included in SIGIR's October 30, 2010 Quarterly Report. In most sectors the

[6] *Challenges Faced in Carrying Out Iraq Relief and Reconstruction Fund Activities,* SIGIR-05-029, 1/26/2006.

obligations are less than the allocations, but in three sectors, obligations slightly exceed the allocations:

- Justice, public safety infrastructure, and civil society
- Health care facilities
- Transportation and telecommunications

### Table 8—Comparison of Final Sector Allocation with Obligations as of End of FY 2010 ($ in millions)

| Sector | Allocation September 2008 | Obligations September 2010 | Difference |
|---|---|---|---|
| Electric | $4,202 | $4,103 | $99 |
| Water resources and sanitation | 2,051 | 1,968 | 83 |
| Security and law enforcement | 4,962 | 4,929 | 33 |
| Oil infrastructure | 1,728 | 1,604 | 124 |
| Justice, public safety infrastructure, and civil society | 2,300 | 2,313 | (13) |
| Health care facilities | 812 | 817 | (5) |
| Transportation and telecommunications | 462 | 467 | (5) |
| Roads, bridges, and construction | 305 | 279 | 26 |
| Education, refugees, human rights, and governance | 539 | 520 | 19 |
| Private sector development | 868 | 860 | 8 |
| Administrative expenses | 220 | 220 | 0 |
| **Total** | **$18,449** | **$18,080** | **$369** |

**Note:**
Numbers are affected by rounding.

*Source: Section 2207 Report to Congress, October 2008, and SIGIR October 30, 2010, Quarterly Report.*

In addition to the above sector obligations, the April 2010 SIGIR Quarterly Report listing of sector obligations included $49 million for capacity building by Iraq Transition Assistance Office, which had coordination, oversight, and reporting responsibilities for IRRF 2 projects. This office was replaced by the Iraq Strategic Partnership Office, and the October 2010 SIGIR Quarterly Report shows that obligations were reduced to $45 million. Accordingly, total obligations at the end of FY 2010 was reported at about $18,125 million. However, this obligation data is unaudited and is based on organizations' responses to SIGIR data calls at several different points in time. Based on our audit and the data reported by the organizations in their SF 133s as of September 30, 2010, this obligation amount appears to be overstated by about $155 million.

# Appendix C—Acronyms

| Acronym | Description |
|---|---|
| DoD | Department of Defense |
| DoS | Department of State |
| IRRF | Iraq Relief and Reconstruction Fund |
| FY | Fiscal year |
| OMB | Office of Management and Budget |
| SIGIR | Special Inspector General for Iraq Reconstruction |
| TAFS | Treasury Appropriation Fund Symbol |
| USAID | United States Agency for International Development |

# Appendix D—Audit Team Members

This report was prepared and the audit conducted under the direction of Glenn Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

David Childress

George Salvatierra

# Appendix E—SIGIR Mission and Contact Information

| | |
|---|---|
| **SIGIR's Mission** | Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:<br>• oversight and review through comprehensive audits, inspections, and investigations<br>• advice and recommendations on policies to promote economy, efficiency, and effectiveness<br>• deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse<br>• information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports |
| **Obtaining Copies of SIGIR Reports and Testimonies** | To obtain copies of SIGIR documents at no cost, go to SIGIR's Web site (www.sigir.mil). |
| **To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs** | Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:<br>• Web: www.sigir.mil/submit_fraud.html<br>• Phone: 703-602-4063<br>• Toll Free: 866-301-2003 |
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